Pensions
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INDIVIDUAL RETIREMENT ACCOUNT, IRA:

plan for your retirement.

U.S. Pension Benefit
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PBGC
U.S. GOVERNMENT AGENCY

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The Individual Retirement Account (IRA) program, established by the Employee Retirement Income Security Act of 1974 (ERISA), encourages eligible individuals to create their own retirement plans through tax incentives. Contributions to such plans are deductible, within limits, for Federal income tax purposes, and no Federal tax is paid on those funds until they are withdrawn, normally after age 59½. Benefits previously available only to individuals covered by an employer's pension plan or to the self-employed may now be enjoyed by most working Americans.

This booklet contains basic information about the IRA program and discusses the economic desirability of establishing an IRA.

The Internal Revenue Service (IRS) administers the standards for eligibility and for establishing and maintaining an IRA. The Pension Benefit Guaranty Corporation (PBGC), a U.S. Government agency, as one of its functions, gives advice and assistance on the economic desirability of establishing an IRA.

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IRAs may have disadvantages as well as advantages, depending on your personal situation and needs. Even if you decide an IRA is for you, check carefully among the different forms of IRAs available. Some may be very beneficial for you; others, under certain circumstances, may even result in a loss of some of your investment.

If you are considering establishing an IRA, read this booklet carefully. Note particularly the various restrictions on IRAs in general, found throughout this booklet, and the cautions about specific types of IRAs, found in Sections 4, 12 and 13.

1. What is an IRA?

An IRA is a retirement savings program. If you are eligible, it allows you to set aside a portion of your earnings, which, along with the income from this investment, will not be taxed until you begin withdrawing benefits, normally after age 59-1/2.

You may also use an IRA to defer income tax on a lump-sum distribution received from a qualified plan if you meet the conditions discussed in Section 14 of this booklet.

2. Am I Eligible?

A. You are eligible for an IRA in any given tax year if you work for yourself or someone else, full-time or part-time, and are *not* an active participant during any part of the particular tax year in any of the following types of programs established by an employer:

(1) a qualified pension, profit-sharing or stock bonus plan;

(2) a qualified annuity plan;

(3) a qualified bond purchase plan (purchase of U.S. Savings Bonds on a payroll savings plan out of your own funds *does not disqualify you* for an IRA);

(4) an annuity contract purchased by certain tax exempt organizations (including private schools) or public educational institutions;

(5) a qualified retirement plan for self-employed individuals (Keogh plan); or

(6) a government retirement plan (local, state, Federal or military). However, under certain conditions, you may still be eligible for an IRA despite your participation in a government plan. A member of an Armed Forces Reserve or National Guard unit is not considered to be an active participant in a government plan if he has 90 days or

less on active duty (other than active duty for training) during the year. Similarly, a volunteer firefighter is not considered to be an active participant in a government plan for a taxable year if his accrued benefit at the beginning of the taxable year is not more than an annual benefit of $1,800 (when expressed as a single life annuity commencing at age 65).

The term "qualified" as used in the items in this Section refers to a plan which the IRS or the courts consider to have met the requirements of the Internal Revenue Code.

B. You are an active participant in an employer-established plan and, therefore, not eligible for an IRA during a given tax year in any of the following situations:

(1) if benefits are accrued on your behalf for even a single day during that year under any of the above types of plans.

(2) if you were a participant in a profit-sharing plan, even though you left the service of your employer before any contributions were made for that year. In such a case, you are accruing benefits up to the date you withdraw from the plan, even though your benefits are not funded until after your departure.

(3) if contributions would have been made on your behalf if the plan itself had received any contributions during the given year. An example of this type of situation is a profit-sharing plan to which an employer made no contribution because he had no profit in a given year.

(4) if you have more than one job at the same time and are an active participant in a qualified plan at one of the jobs. Under these circumstances, you may not establish an IRA with earnings from the job where you are not a plan participant. However, even though you are a plan participant at one job, if you are self-employed on another job, you may be eligible for a Keogh plan, which offers various tax advantages for the self-employed. Your IRS District Director's office can give you information on Keogh plans for the self-employed.

If you are not certain whether you are an active participant in any of the types of plans listed in Section 2A, above, ask your employer. If you or your employer have any question regarding your eligibility for an IRA, check with your IRS District Director's Office.

C. You are eligible for an IRA if you work for a company whose plan allows you the choice of not joining the plan and you choose *not* to participate.

D. Even though you are receiving retirement benefits from Social Security, the Railroad Retirement program or any governmental or private employer's retirement program, you are eligible for an IRA if you are presently employed but are not an active participant in a program listed in Section 2A.

E. For the most part, individuals eligible for an IRA are those who:

- work for an employer who does not have a pension plan;
- choose not to, or are not eligible to, participate in their employer's plan;
- are self-employed but are not an active participant in a Keogh plan; or
- left one employer with vested pension rights, or are receiving a pension based on past employment, and are now employed elsewhere but are not an active participant in a qualified plan.

F. An employed individual who is eligible for an IRA may also establish an IRA for a non-working spouse under conditions described in Section 15 of this booklet.

3. How Much Can I Contribute to My IRA?

You may make a yearly contribution to your IRA of up to $1,500 or 15% of your compensation, whichever is less. Compensation includes wages, salaries, or professional fees, and other amounts received for personal services actually rendered. It does *not* include income from items such as interest, dividends or rentals from real estate.

The amount actually contributed, within the above limits, is deductible for Federal income tax purposes. The deduction is made from your gross income so this deduction is available whether you itemize your deductions or use the standard deduction. If your spouse is eligible to set up an IRA and does so, your spouse's contribution is also tax deductible. If you file a joint Federal tax return with your spouse, the total of your IRA contributions is deductible from your combined gross income.

You may continue to make contributions to your IRA until, but not including, the year in which you attain age 70½.

You are not required to contribute money to your IRA every year, or the same amount each year.

For tax years beginning on or after January 1, 1977, a taxpayer may deduct, in one year, contributions made to an IRA within 45 days after the close of that tax year if such contributions were made "on account of" the preceding year, providing that the IRA was established before the close of that earlier tax year.

4. How Do I Start an IRA?

To start an IRA, you must execute a written agreement, contract, or purchase application. These are generally available from any of the organizations furnishing IRAs, described in this Section. The agreement or contract, and accompanying disclosure material, must contain the conditions for establishing and maintaining your IRA, and therefore will cover many of the items discussed in this booklet.

Your IRA funds must be kept separate from any non-IRA funds, and may be invested through various means. Some of the more common means for an IRA investment are:

- *Savings accounts* or *certificates of deposit,* which are long-term savings certificates, placed in a bank or a savings and loan association, or a *savings account* in a Federally-insured credit union. Funds in a Federally-insured institution are guaranteed up to $40,000. Currently, most institutions do not charge for this type of IRA but reserve the right to do so in the future. Many banks and savings and loan associations also offer a *flexible time deposit account,* sometimes called a *"time deposit open account."* These accounts permit an individual to earn the highest rate of interest paid on time accounts, without being subject to the minimum deposit or all of the withdrawal restrictions generally affecting such accounts.
- *An individual retirement annuity,* which is available from insurance companies. This type of IRA generally gives you a regular income, starting at a specified age after 59½, with the amount based on your contributions and their earnings. Such income ordinarily will continue for either a fixed period of time, or for your life, or the life of you and your spouse, depending on the type of annuity

you choose. Insurance companies pay commissions to agents and have other expenses which will affect your benefits under an annuity contract—including the income you will receive after retirement and the cash you would receive if you terminate your IRA before then. In some cases, these costs of insurance, referred to as load costs, are level throughout the period you pay premiums; in others, they may be heavier in the earlier years. The non-level load costs may result in relatively low cash values, in relation to premiums, if you stop paying premiums in the first few years of the contract. An annuity with low cash values during its early years could result in a loss to you if you were forced to withdraw from, or discontinue contributions to, your IRA after only a few years, whether this was because you no longer could afford to pay your premiums or because you became an active participant in a qualified plan. If you are thinking of buying an annuity, consider the above possibilities very carefully.

- An *endowment policy* and a *retirement income policy,* both of which have been authorized for use as an annuity contract. In addition to the features of an annuity contract, such policies provide some life insurance coverage. However, the cost of such life insurance is not deductible from your income for Federal tax purposes. These policies may also be subject to non-level load costs, described in the preceding paragraph on annuities.
- *Mutual fund shares,* which are sold by security brokers or directly by fund sponsors. Mutual funds offer a broadly diversified investment in stocks and/or bonds. Mutual funds are professionally managed and their value generally reflects the quality of such management, as well as economic conditions. The quality of management and fees and commissions vary from one mutual fund to another. Many funds charge a front-end load, that is, various long-term costs are deducted at the outset from each of your contributions. Some funds charge a graduated load, varying with the amount invested; or a level load throughout the entire period of the investment; or no load, that is, there are no charges deducted at the outset from each of your contributions. Generally, mutual funds also charge an annual management fee. This management fee is usually higher for no-load mutual funds.

• A *trust account* established by an employer, a labor union, or other employee association. Contributions, within the prescribed limits, may be made by you, by an employer or both. There is a great variety of arrangements for this mode of investment and the fees, if any, may also vary considerably.

• *Individual Retirement Bonds,* which are issued by the U.S. Government. These are available in denominations of $50, $100 and $500, and the law currently provides an interest rate of 6% per year, compounded semi-annually, from the first day of the month of issue until age 70½, unless redeemed earlier. However, if redeemed in the first year, no interest is paid. There are no fees or commissions for these bonds. They may be purchased in person or by mail from the Federal Reserve Banks and their branches or from the Bureau of the Public Debt of the U.S. Treasury. (See coupon at the end of this booklet.) Your bank may transmit a purchase application for these bonds to a Federal Reserve Bank.

Some additional key features of these bonds are:

(a) To establish such an IRA, you simply complete the bond purchase application.

(b) They are issued only in the name of the individual establishing the IRA, or his or her beneficiary.

(c) Interest is paid only upon redemption. Generally these bonds may be redeemed without penalty only after the registered owner is 59½ years old, becomes disabled or dies.

(d) The bonds earn no interest after the owner reaches age 70½ and the value of any unredeemed bonds becomes fully taxable at that time. However, you can avoid the burden of taxation on all your unredeemed bonds in the single year in which you reach age 70½. To do so, prior to the end of the year in which you reach age 70½, you may transfer your funds from a bond IRA to any of the other IRAs discussed in this Section, since these all permit withdrawals throughout the rest of your expected life, or the lives of you and your spouse. See Section 5C regarding the minimum withdrawal requirements.

If you desire more information on Individual Retirement Bonds, or want to start such a program, use the coupon at the end of this booklet.

You may establish more than one IRA, either within a single year or over a period of years. These separate IRAs may be in the same investment form (for example, two separate savings accounts), or in different investment forms (for example, one IRA in an annuity and another in Individual Retirement Bonds). However, in any single year your combined contributions must not exceed 15% of your yearly compensation or $1,500, whichever is less.

You are not bound to the same IRA permanently. You are permitted, no more often than once every three years, to withdraw funds and, within 60 days, transfer them tax-free to another IRA. Note, however, that such a transfer may result in a financial loss to you, if your investment has load costs which are not level, as described earlier in this Section.

5. When Does Receipt of IRA Benefits Begin?

A. You may begin withdrawing your IRA funds in the year in which you reach age 59½, even if you don't stop working. (See Section 6 for withdrawals before age 59½.)

B. Between ages 59½ and 70½ you may withdraw any amounts from your IRA, whenever and as often as you like. For example, you may take $2,000 one year, $0 the next, and $250 the third, if you so desire.

C. By the end of the tax year in which you reach age 70½, either: (1) you must withdraw your entire interest in the IRA; or (2) you must begin withdrawing a minimum amount from your IRA, if your IRA is in the form of an annuity, it contains its own formula for distributions. In other cases, the minimum amount for withdrawal is determined by dividing your entire interest in the account at the beginning of the year in which you reached age 70½, by your life expectancy, or that of you and your spouse, based on the appropriate tables found in section 1.72-9 of the Income Tax Regulations. These tables may be obtained from your IRS District Director's Office. If the amount withdrawn in any given year, after the end of the year in which you reach age 70½, is less than the required amount, the difference will be subject to a 50% excise tax.

D. If you die before your entire interest in your IRA has been distributed to you, your beneficiary (or beneficiaries) within five years of your death must either (1) withdraw the funds remaining in your IRA account, or (2) purchase an immediate annuity to be paid out over the life of the beneficiary (or beneficiaries). Such an annuity contract must be distributed immediately to your beneficiary unless you were already receiving annuity payments from your IRA at the time of your death and your annuity was not for a period longer than your life or that of you and your spouse.

If your spouse is receiving distribution from your IRA and your spouse dies, then the beneficiary of your spouse is subject to the above requirements regarding distribution of the funds remaining in the IRA.

Your IRS District Director's Office can offer further help on distribution of IRA funds in the event of death.

U.S. Individual Retirement Bonds are exempt from the above mandatory distribution requirements but have conditions of their own applicable at age 70½, which are described above in Section 4 at (d).

6. What Happens If Withdrawals are Made Before Age 59½?

Withdrawals from an IRA before age 59½ are permitted without tax penalty only:

- to permit transfer of funds from one IRA to another but no more frequently than once every three years;
- if you die; or
- if you are disabled to the extent that you are unable to engage in any substantial gainful activity for what is expected to be a long or indefinite period.

Your IRA is given favorable tax treatment because it is intended for your retirement. Therefore, any withdrawal before age 59½, except as indicated above, is premature and you must: (a) include the amount of the withdrawal in your gross income for Federal tax purposes in the year of receipt and pay the regular income tax on it; and (b) your income tax liability for the year is increased by an amount equal to 10 per cent of the premature distribution includible in your gross income.

7. Are There Any Other Restrictions on IRAs?

A. If you contribute an amount to your IRA in any year which exceeds the maximum deductible level (the lesser of $1,500 or 15% of your compensation), you should withdraw the excess and any earnings based on it no later than the time you are required to file your tax return for the year in question. This will avoid a 6% penalty tax on the excess amount. Excess contributions could result, for example, from a situation in which, early in the year, you contribute 15% of your expected annual earnings, but subsequently it becomes clear that your earnings will be less than anticipated.

B. If you start an IRA but later become an active participant in a qualified plan, you will not be permitted to make any further contributions to your IRA as long as you remain an active participant in that plan. If you have already contributed to your IRA during the particular tax year in which you become an active participant in a qualified plan, you should withdraw your IRA contributions *for that year* before the time for filing your tax return for the year in question. This will avoid additional taxation on the amount contributed in the year in which you entered a qualified plan. The funds you may have contributed to your IRA in previous years will remain in your IRA and will continue to earn whatever return your investment provides. You may withdraw your IRA funds as indicated in Sections 5 and 6, above.

C. If you buy an endowment or retirement income policy which provides both a retirement feature and life insurance, you may not deduct that part of the annual premium which is allocated to the life insurance. If, for example, the total premium is $700 a year, of which $100 is allocated for life insurance, only $600 of the premium is tax-deductible. However, you are still free to contribute the difference between this sum ($600) and your maximum limit to another IRA. The insurance company should tell you how much is deductible and how much is allocated to life insurance.

D. You may not use an IRA as collateral for a loan. If you do, the portion used as collateral is treated as if it were distributed to you (see Section 6). If you pledge an annuity contract, the fair market value of the annuity contract, not merely the amount of the loan, is includable in your gross income for the taxable year in which the loan is made.

8. Is IRA Retirement Income Taxable?

Once you start making withdrawals from your IRA, you pay Federal income taxes on the amount withdrawn. However, at that time you may be in a lower Federal tax bracket than previously, and you may qualify for retirement income tax credits. In addition, at age 65 you and your spouse are each entitled to a double personal exemption. These factors make it probable that during the period you receive your IRA funds, you will be paying a smaller percentage of your income for taxes than during your earlier years.

Generally, upon your death, the value of the annuity (periodic payments) which your beneficiary receives from your IRA is exempt from Federal estate taxes; a lump-sum distribution is not. The exemption applies to annuities from amounts rolled over from a qualified plan to your IRA, as well as from an IRA based on your earnings.

If the distribution from your IRA is a lump-sum, you may want to check with IRS on the possibility of using the marital deduction or the new unified estate and gift tax credit, which may shelter this distribution from Federal taxes.

9. Comparison of Yield of IRA and Non-IRA Investments.

IRAs are given favorable tax treatment. The amounts you are permitted to invest are deductible for Federal income tax purposes and no tax is paid on such funds until they are withdrawn, normally sometime after age 59½. Therefore, in an IRA, you may invest the full amount you had set aside for investment. With a non-IRA, there is no tax deduction for the amount intended for investment. Therefore, after paying taxes on your income, including the amount earmarked for investment, you will have less to actually invest than you had intended. In addition, the earnings on your IRA are not subject to tax until you withdraw the funds, while those of a non-IRA are taxed annually, except for an annuity or endowment contract. This usually will result in a greater return, after taxes, for an IRA than a non-IRA in an identical investment.

The following chart compares the results of investments in an IRA and a non-IRA plan by employees who otherwise are in identical financial and income tax circumstances. The assumptions used in preparing this chart follow.

Assumptions For Comparison of IRA and Non-IRA Investments

A. **IRA employee:** Annual earnings of $10,000 or over to age 65. (You may invest in an IRA even if your annual earnings are under $10,000 but your maximum annual investment would be less than $1,500.)

Non-IRA employee: Annual earnings of either $10,000 or $20,000 to age 65.

B. **For both the IRA and the non-IRA employee:**

(1) $1,500 is set aside annually for investment.
(2) A joint return is filed, and the standard Federal income tax deduction is elected, along with four exemptions until age 50; two exemptions until age 65; and 4 exemptions thereafter (because of double personal exemptions after age 65).
(3) There are no contributions to the retirement program after age 65.
(4) There is no income after age 65 other than Social Security and the IRA or the non-IRA retirement program.
(5) Solely for purposes of illustration, withdrawals of funds from the investment program are made over a 16 year period starting at age 65, since 16 years is the average life expectancy for the total U.S. population at age 65 (1974 data). It should be noted that the maximum periods for distribution permitted by IRS vary for males and females, as specified in the tables referred to in Section 5C, above.
(6) Solely for purposes of illustration, the assumed rate of return is 6% compounded annually. (Note carefully that except for U.S. Individual Retirement Bonds purchased at the present time, there may be no assurance of a 6% earnings rate on either an IRA or a non-IRA).
(7) Solely for purposes of illustration, all tax computations are based on Federal income tax rates for 1974 but do not include the the 1974 tax rebate.

Comparison of IRA and Non-IRA Investment Plans

Computation of Investment *	Age 30 — IRA — $10,000 and Over Annual Income	Age 30 — Non-IRA — $10,000 Annual Income	Age 30 — Non-IRA — $20,000 Annual Income	Age 50 — IRA — $10,000 and Over Annual Income	Age 50 — Non-IRA — $10,000 Annual Income	Age 50 — Non-IRA — $20,000 Annual Income
(1) Total of $1,500 annually set aside for investment to age 65	$ 52,500	$ 52,500	$52,500	$22,500	$22,500	$22,500
(2) Taxes on set aside: (1)	0	8,470	13,350	0	3,630	5,850
(3) Net amount invested: (1)—(2)	52,500	44,030	39,150	22,500	18,870	16,650
(4) Earnings on net investment: (3)	124,681	87,926	74,143	14,509	11,477	9,855
(5) Taxes on earnings: (4)	0	18,474	20,631	0	2,228	2,760
(6) Value of investment at age 65: (3) + (4) − (5)	177,181	113,482	92,662	37,009	28,119	23,745
(7) Earnings on investment during 16 year period after age 65	103,331	66,182	54,042	21,583	16,393	13,855
(8) Annual withdrawals from investment, before taxes, for each of the 16 years after age 65: (6) + (7) ÷ 16 years	17,532	11,229	9,169	3,662	2,782	2,350
(9) Taxes for 16 year period after age 65	38,288	1,694	572	0	0	0
(10) Total withdrawals from investment, after taxes, for 16 year period after age 65: (8) × 16 years − (9)	242,224	177,970	146,132	58,592	44,512	37,600

* All items show totals to age 65 unless otherwise indicated. All references to taxes are to Federal income taxes. State income taxes have not been computed in this chart.

Difference between IRA and Non-IRA: (10)

Starting at age 30,	$10,000 income:	$64,254
	20,000 income:	96,092
Starting at age 50,	$10,000 income:	14,080
	20,000 income:	20,992

The difference between an IRA and non-IRA investment will be less than shown in the chart where the earnings on a non-IRA are not subject to annual Federal income tax, as in the case of annuity or endowment contracts.

The chart reflects the following:

1. The IRA and the non-IRA employee both intend to set aside $1,500 annually, less Federal income taxes. The amount which the IRA employee sets aside is free from Federal income tax, resulting in a $1,500 annual investment. The non-IRA employee's income is subject to tax and thus, for example, at the $10,000 annual income level, the tax attributable to $1,500 is $242, leaving only $1,258 for actual investment annually.

2. Although both the IRA and non-IRA earn interest at 6%, the non-IRA is taxed on those earnings annually while the IRA is not, resulting in a greater accumulated investment for the IRA.

3. Withdrawals from the IRA, which begin at age 65 in our illustration, are taxed as ordinary income. The non-IRA withdrawals are not taxed (although the interest earned in each year, including the period after age 65, is taxed) because those funds were taxed during the years they were earned. However, when you do start paying taxes on your IRA withdrawals, chances are that you will be in a lower Federal income tax bracket than during earlier years, when the non-IRA employee was taxed on his investment.

Thus, at the $10,000 annual income level, if the program were started at age 30 and contributions were made for 35 years, after subtracting the income tax paid on withdrawals from the IRA during a 16-year period after age 65, the IRA employee would receive $64,254 more than the non-IRA employee. At the $20,000 income level, under similar circumstances, the IRA employee would receive $96,092 more than the non-IRA investor.

The figures in the preceding table are just an example based on the assumptions listed above. Most likely there will be a number of differences between the illustration and your situation, including items such as: your present or future salary; the number of dependents; the use of itemized income tax deductions rather than the standard deduction; the age at which you start your IRA; the age at which you start IRA withdrawals and the duration of such withdrawals; and other sources of income while you are making IRA withdrawals, which might raise your tax bracket.

To the extent that any of the above or other pertinent factors differ from those used in the chart, the resulting figures will, of course, differ. However, given the favorable tax treatment of an IRA, its comparative advantages over a non-IRA program generally would remain similar to the results in the chart.

The amount you would accumulate in your IRA would depend on factors similar to those discussed immediately above which affect your income tax status; on how much you invest each year; and on the actual rate of return which your investment produces. Note again that, except as indicated for the Individual Retirement Bond in Section 4, there may be no guarantee of a 6% return on your IRA throughout the period of accumulation. The 6% rate was used in the chart only as an example.

10. Is an IRA For Me?

In deciding whether to start an IRA program, consider carefully all the material in this booklet. Think especially about the goal of an IRA (building a retirement income program), and the penalties for early withdrawal. Then ask yourself this important question:

In my personal financial situation, can I set aside some of my income for retirement purposes, knowing that I cannot use that money until age 59½ without suffering penalties?

If your answer is "No" at present, you may reconsider your decision any time, as long as you are not an active participant in a qualified plan.

11. When Can I Start an IRA?

An IRA may be started any time before the year in which you reach age 70½. Funds invested in an IRA before the end of a tax year will be deductible for that tax year.

12. What Type of IRA Should I Choose?

If you decide to establish an IRA, you may choose any one or more of the types listed above in Section 4. There may be advantages and disadvantages to different types, depending on your personal situation. For example:

- Do you expect to be contributing to your IRA for only a short period of time, such as under 10 years? If so, check what the value of your investment would be in an IRA which charges no fees, or level fees for each year, as compared to an IRA in which the load costs are not level or are front-end loaded.

- If a financial emergency arises before age 59½, are you likely to have to use your IRA? If so, as in the answer to the immediately preceding question, check the value of different types of IRAs at various time periods prior to retirement.
- Do you need a definite amount from your IRA for your retirement plans? If so, consider a type that assures you at least that amount.
- Do you have some flexibility in the amounts you will need from the IRA program for your retirement? If so, you may want to compare an IRA that gives an assured value with the type that involves greater risk but may offer the possibility of greater return.

The type that best suits your needs may depend on factors such as:

- your age;
- how long you expect to be working without coverage in a qualified pension plan;
- how much and how long you plan to contribute to your IRA;
- your present and likely future financial situation;
- whether you think you might want to switch from one type of IRA to another, or might have to withdraw funds after a short number of years;
- your other retirement income, including social security, if any; and
- what your retirement goals are.

After you have selected the type of IRA which best meets your needs, shop around carefully since the rate of return, as well as the contractual terms, may vary considerably, even for a single type of IRA. Thus, for example there may be variations in the rate of interest paid by different institutions, or differences in the monthly annuity payment received from different insurance companies.

13. What Information Should I Get from the Seller of an IRA?

After analyzing your personal situation, check carefully with organizations selling IRAs. You may want to ask the seller of an IRA questions such as:

- Am I guaranteed the return of the amount of my investment and its earnings? If so, by whom? If not, am I guaranteed a specified amount and how much will it be?

• Is there a guaranteed rate of return on my investment? If so, what is it? For how long a period is the rate guaranteed? Will future investments in that same IRA receive the same guarantees?

• Does the rate of return depend upon investment performance? If so, how has the seller's investment performance been in past years and how does this compare with general market indicators such as the New York Stock Exchange, Dow Jones or S & P 500 averages? (If the investment is a mutual fund, ask about its comparative performance and its investment goals. You may also want to check the charts and comparative data in a publication such as *Investment Companies—* Mutual Funds and Other Types, published by Wiesenberger Services, Inc., which you may find in a public library.)

• What is the total amount of the fees, commissions, administrative costs or charges of any sort which are deducted from the amount I invest or from the earnings of the IRA?

• How much would I receive if I were to withdraw all the funds from my IRA at the end of any of its first five years? How much would I receive at the ages of 60, 65 and 70? The seller of an IRA is *required* to give you these figures if the amount of your investment is guaranteed, or if the expected value over the years can reasonably be figured. If the future value of your investment cannot now be calculated, the seller of an IRA is *required* to give you the following: a statement, in non-technical language, of any and all charges which are used to determine the net amount which is actually invested for you. This includes all charges deducted from your contributions, the method for determining the earnings on your investment and any charges on those earnings.

The seller of a IRA is also *required* to give you the following information in non-technical language:

• the eligibility requirements for an IRA;
• the limitations on contributions;
• the excise tax on excess contributions;
• penalty taxes on premature distributions; and
• penalties for borrowing from your IRA or using it as security for a loan.

The IRS, on December 6, 1976, issued regulations which provide that a disclosure statement covering the above items must be furnished to the purchaser of an IRA. This statement must be given to the purchaser not later than the seventh day preceding the establishment or purchase date of the IRA, whichever is earlier. However, if the purchaser is permitted to revoke the IRA within seven days of its establishment, with a full return of all monies paid and without deductions for any commissions, charges or market losses, then the disclosure statement need not be furnished until the date on which the IRA is established or purchased, whichever is earlier.

If there is a material adverse change in either the disclosure statement or the instrument setting up the IRA ("governing instrument"), and that change is effective on or before the earlier of the date of establishment, purchase or last day of the revocation period, you are entitled to a copy of the amendment sufficient to inform you adequately of the change.

If the governing instrument is amended after the time for revocation has passed, the trustee or issuer of the IRA must furnish you with a copy of the amendment not later than the 30th day after the later of the date the amendment was adopted or becomes effective.

14. May I Use a Distribution from a Qualified Plan to Establish an IRA?

If you receive a lump-sum distribution of your entire credit balance (a "qualifying distribution") from a qualified plan or plans, you may start an IRA *even if you are not otherwise qualified for an IRA.* This is called a tax-free rollover. The following conditions apply:

A. If you receive a qualifying distribution because of plan termination or complete discontinuance of contributions to the plan, you are eligible to roll over the distribution into an IRA regardless of how long you were a participant, and whether or not you continue employment. However, if you are an owner-employee, you must be at least 59½ years before you may roll over such a distribution into an IRA.

If you receive a qualifying distribution because you left the service of the employer whose plan made the distribution, or because you reached age 59½, or because you became disabled while self-employed, you are eligible to roll over this distribution only if you were a plan participant for at least five years.

B. The amount you invest in an IRA must be the entire amount you received from the plan, or if you receive distribution from more than one plan, you must invest the entire amount you received from all such plans, less the amount of your contributions, if any, to the plan or plans.

C. Your lump-sum distribution must be invested in an IRA within 60 days of receipt for the rollover to be tax-free. Under these circumstances, the lump-sum distribution is not taxed as income. Therefore, on your income tax return, no addition to, or deduction from, gross income is made for a lump-sum distribution reinvested in an IRA.

D. The lump-sum distribution should be invested in an IRA which is separate from any other IRA you have or may establish subsequently. This will permit you the choice, if the opportunity later arises, of rolling over your lump-sum IRA into another qualified plan. Thus, after you have established an IRA with your lump-sum distribution, if you are later a participant in a qualified plan which permits you to transfer to it your previous lump-sum distribution, you may do so tax-free. However, this can be done only if you kept your lump-sum IRA fully separate from any other IRA. The transfer of funds to the qualified plan must be completed within 60 days after the withdrawal from your lump-sum IRA.

E. Eligibility for a lump-sum IRA and eligibility for an IRA based on contributions from earnings are unrelated to each other. Thus, you may establish a lump-sum IRA, if you are eligible, even though you already have an IRA based on contributions from earnings. Similarly, you may establish an IRA based on your earnings, if you are eligible, even though you already have a lump-sum IRA.

F. There are additional tax considerations, such as capital gains and income-averaging, and other factors which may be involved in a tax-free rollover. Accordingly, you may want to seek additional information from IRS, the Pension Benefit Guaranty Corporation or your tax advisor.

15. May I Start an IRA for My Spouse from My Earnings?

Yes. If you are eligible to establish an IRA and your spouse earned no compensation during a tax year, a "spousal IRA" option is available for taxable years beginning after 1976, as an *alternative* to the individual IRA (which allows a maximum yearly contribution of $1,500) described earlier in this booklet. You may claim deductions under one or the other, but not under both. The "spousal IRA" option permits you to contribute up to half of $1,750 ($875 for each spouse) or up to half of 15% of your compensation, whichever is less, to separate IRAs for the benefit of you and your spouse; or you may contribute up to the lesser of $1,750 or 15% of compensation to a single IRA with one subaccount for you and another for your spouse. In no case can you deduct annual contributions to such accounts greater than the allowable joint maximum ($1,750). The subaccounts may provide for the right of survivorship in the other spouse's subaccount.

The limitations and other provisions applicable to an individual IRA set forth in the foregoing items of this booklet also apply to a spousal IRA.

16. Additional Information

For additional information on eligibility for IRAs, or how to start or maintain one, contact your appropriate IRS District Director's Office, listed in the telephone directory under "U.S. Government, Internal Revenue Service". That Office can also give you a copy of IRS Publication 590, "Tax Information on Individual Retirement Savings Programs".

For additional information on the economic desirability of establishing an IRA, write to:

Pension Benefit Guaranty Corporation
2020 K Street, N.W.
Washington, D.C. 20006
Attention: Office of Communications

For additional information about U.S. Individual Retirement Bonds, complete and mail the attached coupon.

Bureau of the Public Debt
Division of Securities Operations—STB
Washington, D.C. 20226

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